COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF KENTUCKY-AMERICAN WATER COMPANY	))	CASE NO. 2007-00143

COMMISSION STAFF'S SECOND SET OF INFORMATION REQUESTS TO KENTUCKY-AMERICAN WATER COMPANY

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Kentucky-American Water Company ("Kentucky-American") file with the Commission the original, one paper copy and one electronic copy of the following information no later than June 18, 2007. Each paper copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided.

Each response shall be under oath or, for representatives of a public or private corporation, a partnership, an association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky-American shall make timely amendment to any prior response if it obtains information upon the basis of which it knows that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky-American fails to furnish all or part of the requested information, Kentucky-American shall provide a written explanation of the specific grounds for its failure to furnish.

Careful attention shall be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be provided for total company operations and jurisdictional operations, separately.

1. List all of Kentucky-American's sewer facilities.

2. List all Kentucky-American facilities and contract operations that are not subject to the Commission's regulation.

3. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, pages 20 through 27 of 118.

a. Identify the Kentucky-American employees, by name, who are expected to provide services to Kentucky-American's non-regulated or sewer operations during the forecasted test period and state the amount of time each employee is expected to spend providing services to the non-regulated or sewer operations.

b. Identify the Kentucky-American employees, by name, who are expected to provide services to American Water Works Company ("AWWC") or any AWWC-affiliated entity other than Kentucky-American during the forecasted test period and state the amount of the time that he or she is expected to spend providing such services to entities other than Kentucky-American.

c. Identify each employee, by name, who holds a position title with AWWC or an AWWC affiliate other than Kentucky-American. For each employee identified, state his or her non-Kentucky-American position and state his or her title(s).

d. Describe the duties of each salaried Kentucky-American employee.

4. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, pages 20 through 27 of 118. For each vacant personnel position listed in forecasted labor costs, state:

a. The reason(s) why the position must be filled.

b. The reason(s) why the position is currently vacant.

c. The current status of Kentucky-American's efforts to fill the position and the anticipated hire date.

d. The total cost of the position included in the forecasted test period (i.e., payroll expenses, payroll capitalized, retirement, taxes, insurance benefits), stated separately, and the accounts to which each amount was charged.

5. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, W/P3, page 2 of 18. Incentive pay included in forecasted labor is $252,550.

a. Describe the incentive pay plan and explain why such a plan is necessary and reasonable.

b. (1) State whether the forecasted incentive pay is being awarded under the same long-term incentive compensation and annual incentive plan compensation pay plans whose costs the Commission disallowed in Case No. 2004-00103.[1]

(2) If the incentive plan is the same, explain why Kentucky-American proposes to include its costs in the determination of rates in this proceeding.

(3) If the incentive plan differs from that reviewed in Case No. 2004-00103, describe how the plan differs from the plan previously reviewed.

c. List all Kentucky-American employees who are eligible to participate in the program.

d. State the level of incentive pay available to each participant in the forecasted period.

e. State the level of incentive pay awarded to all individuals participating in the program for the previous 5 years compared to the level of incentive pay available to each participant in the forecasted period.

f. Explain how incentive payment awards in previous years were determined.

g. State the amounts of incentive payment awards included in the forecasted test period and explain how the amounts were determined.

6. Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 3.

a. Identify the account in which FICA Excess of $309,400 is reported in Kentucky-American's forecasted operating expenses.

b. Define the term "FICA Excess."

[1] Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company (Ky. PSC Feb. 28, 2005) at 47 – 49.

7. In its Response to Commission Staff's First Set of Information Requests Item 1(a), W/P3, page 2, Kentucky-American calculates forecasted labor expense for the total company of $6,107,575. At Schedule C-2, page 1 of 5, of its Application, however, Kentucky-American lists forecasted labor expense as $6,318,580. Reconcile the difference.

8. Provide the labor capitalization rates for the 5 most recent calendar years.

9. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 3.

a. State whether Kentucky-American applied the 4 percent annual wage increase applied to both union and non-union employees in the forecasted test period.

b. If the response to Item 9(a) is no, provide the percentage annual wage increase that Kentucky-American applied in the forecasted test period for union and non-union employees.

c. Provide the historical percentage wage increases for Kentucky-American's union and non-union employees for each of the previous 5 calendar years.

10. Identify all amounts included in the purchased water expense forecast for water purchased for Kentucky-American's sewer and non-regulated operations.

11. In its Response to Commission Staff's First Set of Information Requests Item 1(a), W/P3, pages 45 through 53, Kentucky-American calculates forecasted fuel and power expense for the total company of $2,899,277. In its Application at Schedule C-2, page 1 of 5, Kentucky-American lists forecasted fuel and power expense as $2,986,277. Reconcile the difference.

12. Identify all amounts included in the fuel and power expense forecast for Kentucky-American's sewer and non-regulated operations.

13. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 3.

a. State the basis for Kentucky-American's forecasted price increases for electricity costs.

b. Provide the annual percentage increase for Kentucky-American's total electricity purchases for each of the previous 5 calendar years.

14. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, pages 45 through 52.

a. Provide the calculations and documents used to derive the "kwh/mg" per month.

b. Provide the calculations and documents used to derive "energy cost/kwh" per month.

15. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 54. Explain why the low service pumpage is approximately 500,000,000 gallons more than the high service pumpage.

16. Refer to Kentucky-American's Application, Exhibit 37, Schedule C-2, page 5 of 5, Overall Financial Summary - Owenton. Provide all calculations and supporting documents used to derive the forecasted fuel and power expense of $87,000 for the city of Owenton.

17. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 3.

a. State the basis for the forecasted price increases for chemical and chlorine prices.

b. Provide the annual percentage increases in Kentucky-American's total chemical and chlorine costs for each of the previous 5 calendar years.

18. At page 29 of her direct testimony, Ms. Linda Bridwell states: "[T]he company has forecasted a price increase effective January 2008 based on initial conversations with chemical suppliers." Provide all correspondence between Kentucky-American and its chemical suppliers since January 1, 2006 in which the cost of chemicals is discussed.

19. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, pages 56 through 65. Provide the calculations and state all assumptions used to derived the chemical usages

20. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 66.

a. For each Kentucky-American water treatment facility, list the dates in the previous 10 years that the facility was cleaned, the cost of each cleaning, and the amortization period that Kentucky-American used for each cleaning.

b. Provide all documents upon which Kentucky-American used to derive the actual waste disposal cost for KRS of $202,500.

c. Provide all documents that contain a description of the services that comprise the actual waste disposal cost of KRS of $202,500.

d. For the entries “2007 Cleaning RRS,” “KRS Waste Disposal Current,” and “RRS Waste Disposal Current,” explain what each entry represents and describe how each entry was determined.

21. Refer to the Direct Testimony of Patrick Baryenbruch.

a. At page 3 of Exhibit PLB-1 of his testimony, Mr. Baryenbruch refers to monthly bills that the Service Company issues to the operating companies. Provide all of the monthly invoices that the Service Company issued to Kentucky-American for the calendar year ended 2006.

b. At page 3 of his testimony, Mr. Baryenbruch states: “KAWC transitioned to the Alton Call Center in October 2003 and to the Pensacola Call Center in June 2005.” At page 21, however, he states that the Call Center is in Alton, Illinois.

(1) Identify the Call Center that Kentucky-American currently uses.

(2) If the response to Item 21(b)(1) is the Pensacola Call Center, explain why Kentucky-American switched call centers.

(3) If the response to Item 21(b)(1) is the Pensacola Call Center, provide a cost comparison of the call centers for the forecasted test period. Provide all workpapers, show all calculations, and state all assumptions used to prepare the comparison.

c. Refer to Exhibit PLB-1, page 7.

(1) List and describe each of the $733,724 of Service Company charges that was considered “non-recurring” and state the reason why Kentucky-American considers that charge as non-recurring.

(2) Explain the relevance of the statement “KAWC is not seeking recovery” of these charges considering the charges were incurred during the calendar year ended 2006 and Kentucky-American’s forecasted test period used as a basis for rates in this case is the 12 months ended November 30, 2008.

(3) Mr. Baryenbruch states the “recoverable” amount of 2006 Service Company charges as $5,878,690. The forecasted income statement set forth in Kentucky-American’s Application, Exhibit 37, Schedule C, page 7 of 55 lists Management Fees of $6,246,717. Reconcile these two amounts and explain each difference in the charges comprising these amounts. This response should separately itemize the charges of each service company.

d. Refer to Exhibit PLB-1, Schedule 3. Provide for each service company directly assigning or allocating hours to Kentucky-American the job titles and/or classifications of employees that had hours assigned or allocated to Kentucky-American.

e. For each job title and/or classification set forth in Kentucky-American’s Response to Item 21(d), provide:

(1) The minimum education, training, and experience necessary to hold the position.

(2) The 2006 pay rates and average payroll overhead costs for all employees holding the position. Show the calculation of the average payroll overhead costs.

(3) The number of hours allocated and directly assigned, stated separately, to Kentucky-American.

(4) The outside provider position included in Exhibit PLB-1 Schedules 5, 6, 7, and 8 that is the comparable position.

f. Refer to Exhibit PLB-1, page 3. List the services that AWWC's Corporate Office provides to American Water subsidiaries.

g. Refer to Exhibit PLB-1, Schedule 2. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

h. Refer to Exhibit PLB-1, Schedule 3. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

i. Refer to Exhibit PLB-1, Schedule 4. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

j. Refer to Exhibit PLB-1, Schedule 5.

(1) Provide all pages of the Michigan Lawyers Weekly that Kentucky-American used to develop the Billing Rate Range.

(2) Explain why averaging the hourly rate of an associate and a partner is a reasonable method to calculate the billing rate of a Kentucky attorney.

k. Refer to Exhibit PLB-1, Schedule 6.

(1) Provide all relevant pages from "Operating Ratios For Management Consulting Firms, 2006 Edition."

(2) Explain how each of the percentages for "Typical Percent of Time Spent on a Consulting Project" was determined.

l. Refer to Exhibit PLB-1, Schedule 7.

(1) Provide all relevant pages from the American Institute of Certified Public Accountants' 2006 National PCPS/TSCPA Management of an Accounting Practice Survey.

(2) Explain how each of the percentages for "Typical Percent of Time Spent on an Accounting Assignment" was determined

m. Refer to Exhibit PLB-1, Schedule 8.

(1) Provide all documents and state all assumptions that were used to develop the average billing rates for Firm #1 and Firm #2.

(2) Explain how each of the percentages for "Typical Percent of Time on an Engineering Assignment" was determined

n. Refer to Exhibit PLB-1, page 18. Describe how Mr. Baryenbruch determined the "New Positions' Salary" level as $85,000 and 52 percent of this level as the cost of benefits associated with the new position. Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination.

o. Refer to Exhibit PLB-1, page 19. Provide Belleville Lab survey results for 2005 and 2006.

p. Refer to Exhibit PLB-1, Schedule 9, page 1 of 2.

(1) For each listed item in "Labor," state whether the Call Center performs that task for Kentucky-American.

(2) For each listed item in "Materials and Expense," state whether the Call Center performs that task on behalf of Kentucky-American.

q. Refer to Exhibit PLB-1, page 24.

(1) State the source of “[e]lectric utility industry’s avg calls/customer” of 2.5. Provide all documents used to derive this ratio.

(2) Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination that American Water averages 1.28 calls per customer.

(3) Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination of “Bank charge per item” of $0.1085.

(4) Kentucky-American incurs and reports on its income statement Customer Accounting Expense. The forecasted Customer Accounting Expense in this case is $1,461,534. Provide the analysis of this account for 2006 that was performed to determine that none of these expenses should be included in the calculation of the “2006 Cost Per Kentucky-American Customer” when comparing the amount to those FERC accounts included in the study.

r. Refer to Exhibit PLB-1, page 25. The least cost is $12.43 while the highest cost is $35.82, a difference of $23.39 or 188 percent.

(1) Describe the procedures used to verify that the costs included in the FERC Accounts 903 and 905 by each company listed in the comparison were appropriately classified and reported.

(2) Explain how, if Mr. Baryenbruch did not analyze the information to verify the nature of the amounts charged to these FERC Accounts, the comparison can be relied upon.

(3) Explain the large variance in the results of the comparison.

(4) Explain why, given the large variance in the results, the Commission should rely upon the study.

22. In Case No. 2004-00103, Kentucky-American's forecasted management fees were stated at $3,800,677, detailed as follows:

Belleville Lab	$190,529
Call Center/National Customer Care Center	831,065
Corporate	707,381
ITS Shared Service	819,399
Shared Service	448,017
Southeast Region	804,286
Total	$3,800,677

Of this total, the Commission allocated $367 to other operations, removed business development costs of $117,525, and permitted the recovery of $3,682,785. The forecasted management fees in this case are $6,246,717, a 70 percent increase.

a. List the amounts shown in Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 70 of 118 using the Service Company names used in Case No. 2004-00103 as shown above.

b. State the reason(s) for the change in the level of each forecasted Service Company charge in this case as compared to that of Case No. 2004-00103.

c. List each business development costs included in the forecasted Management Fees of this case, state whether it is directly assignable or allocated, and describe the services associated with the cost.

23. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 69 of 118. State whether the amounts

related to David Whitehouse and Susan Lancho totaling $265,725 are included in the $6,247,146.

24. At page 7 of her direct testimony, Shelia Miller states that the forecasted group insurance reflects the current insurance premium rates adjusted to reflect an 8 percent increase effective January 1, 2008.

a. Provide the current group insurance statements to show the "current group insurance premium rates" that are referenced.

b. State whether Kentucky-American applied the 8 percent increase to each component of group insurance (e.g., life, short-term disability, medical, dental, vision).

c. Provide the documents upon which Kentucky-American relies to support an 8 percent increase in group insurance premiums.

25. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 71 of 118, Group Insurance Attrition Year.

a. Provide the monthly employee contributions that were used to calculate the reimbursements of $1,296 for "Employees without Dependent Coverage" and $11,110 for "Employees with Dependent Coverage."

b. Provide a schedule listing monthly employee group insurance contributions for the 5-year period from January 1, 2001 through December 31, 2006.

26. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 75 of 118.

a. State the basis for the allocation.

b. Explain why a capitalization rate of 17 percent is used instead of the 18.25 percent used for other payroll-related costs.

c. State the number of active participants for each company listed.

d. Provide the Towers Perrin report supporting the total included in the schedule on page 75.

27. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, pages 75 and 77 of 118.

a. State the basis of allocation on page 75.

b. Provide the schedules for the allocations for the previous 5 calendar years.

c. On each schedule provided in response to Item 27(b), provide the number of active participants in each plan for each company.

28. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 74 of 118, Five-Year Projection of Postretirement Welfare Cost.

a. Provide the letter of August 18, 2006 referenced in the footnote on this page.

b. Provide the most recent Towers Perrin actuarial report on OPEBS.

29. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 77 of 118.

a. Provide the Towers Perrin report supporting the pension projections for the years 2007 through 2011.

b. State the number of active participants for each company listed.

c. Explain why the evaluation earnings ratio is the appropriate allocation method for pension costs.

30. In Case No. 2004-00103, Kentucky-American's total forecasted rate case cost was $622,409. In that case the Commission found that, "[i]n the next rate application, Kentucky-American should demonstrate fully its efforts to contain these expenses." In the current case, Kentucky-American's forecasted rate case costs are $700,000,[2] a $77,501 or a 12.46 percent increase. Describe Kentucky-American's efforts to contain rate case expenses.

31. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 82 of 118.

a. Provide all documents that Kentucky-American relies for its projected 5 percent premium increases in 2007 and 2008 for each insurance other than group coverage listed on the schedule.

b. Provide the actual 2007 premium amounts for each insurance other than group coverage listed on the schedule.

c. State the workers' compensation capitalization rate and explain why it differs from the capitalization rate used for other payroll related costs.

32. Refer to Application, Exhibit 37, Schedule H. Kentucky-American states uncollectibles as .880760 percent. In Cases No. 2000-00120[3] and No. 2004-00103, the Commission employed a percentage of .45620 and .50683, respectively. The

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[2] This amount does not include the $35,000 estimated cost of the depreciation study.

[3] Case No. 2000-00120, Application of Kentucky-American Water Company to Increase Its Rates (Ky. PSC Nov. 27, 2000).

uncollectible rate in the current case is nearly double that employed in Case No. 2000-00120 to establish general service rates.

a. State the reasons for the increase in uncollectibles.

b. Explain why it is appropriate and reasonable for the Commission to use an uncollectibles rate in this case that is significantly higher than those used to review prior Kentucky-American rate applications.

33. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 86 of 118.

a. Reconcile the uncollectibles of $503,725 to the $495,095 shown in Kentucky-American's Application at Exhibit 37, Schedule B-5.2, page 5 of 6.

b. Reconcile the forecasted revenue of $57,192,280 to the revenues stated in Kentucky-American's Application at Exhibit 37, Schedule C-2, page 1 of 5.

34. Provide for each AWWC subsidiary that provides water service the amount of its uncollectibles and its total water sales, and its uncollectibles stated as a percentage of total water sales for the calendar year ended 2006.

35. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 95 of 118. Kentucky-American includes in its general office forecast, dues and membership costs of $25,323. For each dues or membership included in the forecast, identify the organization or group to which Kentucky-American will pay the dues or membership fee and the employee(s) for whom the fee is being paid.

36. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, pages 97 through 100 of 118.

a. Explain “Other Welfare Operations.”

b. Describe the expenses that are included in the account entitled “Employee Awards.”

c. Describe the expenses that are included in the account entitled “Safety Incentive.”

d. Describe each of the services forecasted for “Contract Services – Accounting” in the amount of $72,000 and “Contract Services – Legal” in the amount of $75,000.

e. Account No. 575130.16 – Brochures & Handouts totals $52,955. At Exhibit 37, Schedule F, page 10 of its Application, however, Kentucky-American lists the amount for brochures & handouts as $49,865. Reconcile this difference.

f. Explain the significance of the schedule entitled “Transportation Expense – Adjustment for Rate Case” and identify the account number and title in which the $253,471 is reported.

37. Refer to Kentucky-American’s Application, Exhibit 37, Schedule F. For each forecasted amount listed in this Schedule, identify the account on page 7 of Exhibit 37, Schedule C, in which Kentucky-American has recorded the amount.

38. Refer to Kentucky-American’s Application, Exhibit 37, Schedule F, page 10 of 13.

a. Provide the conservation advertisements whose cost Kentucky-American proposes for the forecasted period.

b. Kentucky-American includes in the forecasted advertising expense institutional advertising of $69,099. Administrative Regulation 807 KAR 5:016 prohibits the recovery of institutional advertising in rates. Explain why the cost of the proposed institutional advertising may lawfully be recovered through rates. Kentucky-American's response should include examples of the proposed advertisements or other forms of advertising.

39. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 107 of 118. Explain why Kentucky-American did not allocate a portion of the forecasted maintenance expense to Boonesboro Sewer.

40. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 117 of 118. Kentucky-American incurred actual paving/backfill expense of $173,051 in 2006, but proposes to increase the level of this expense to $235,750 in the forecasted period. State the reasons why Kentucky-American anticipates such an increase in paving/backfill in the forecasted period.

41. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 4 pages 10 through 13 of 16.

a. Identify each asset listed on these schedules that is used to provide service to Kentucky-American's non-regulated or sewer operations.

b. Reconcile the account numbers and titles listed here to those stated in the Direct Testimony of John Spanos at Exhibit JJS-1, III-4 and III-5.

c. Identify the account numbers and titles to which the proposed construction in Case No. 2007-00134[4] will be charged. Provide the estimated amounts to be charged to each account. Show construction costs, costs of removal and salvage values separately.

d. For each account identified in Item 41(c), state the annual composite depreciation rate that Kentucky-American intends to apply when calculating annual depreciation expense on the new facilities once they are placed into service. Show the calculation of the anticipated annual depreciation expense.

e. Refer to Kentucky-American's Application, Exhibit 37, Schedule B-1 page 2 of 2, Rate Base Summary as of November 30, 2008. The Contributions In Aid of Construction ("CIAC") balances contained in the workpapers differ from the balances contained on Schedule B-1. Reconcile the CIAC balances in the following table:

	Division	WP 4	Sch B-1
(1)	Central	$ 53,512,277	$ 42,644,839
(2)	Tri-Village	$ 2,453,706	$ 2,202,856
(3)	Elk Lake	$ 0	$ 64,647
(4)	Owenton	$ 2,125,463	$ 1,630,457

42. Refer to the Direct Testimony of John Spanos, pages III-4 and III-5.

a. State for each account listed on this schedule the expected average service lives and average ages of the assets used to determine the composite remaining lives.

b. Provide all documents, show all calculations, and state all assumptions used to derive the net salvage percentages.

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[4] Case No. 2007-00134, The Application of Kentucky-American Water Company for a Certificate of Public Convenience and Necessity Authorizing the Construction of Kentucky River Station II, Associated Facilities and Transmission Main (Ky.PSC filed Mar. 30, 2007).

43. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 1, page 12 of 79. State for the following asset groups the reasons for the change in the average remaining service lives as determined in Kentucky-American's previous depreciation study and that presented in Kentucky-American's current application.

	Current	Proposed
Collection & Impounding Reservoirs	45.45 Yrs	59.88 Yrs
Supply Mains	90.09	51.81
Electric Pumping Equipment	26.95	38.76
Water Treatment Equipment	24.81	43.29
T&D Mains	84.75	58.82
Services	23.64	30.12
Meters Bronze Case	98.04	34.01
Meters Plastic Case	20.12	33.78
Meter Installations	40.98	32.57
Hydrants	38.76	56.50
Stores, Shop, and Garage Struct.	60.60	41.32
Office Furniture and Equip.	24.69	9.59
Comp & Periph Other	28.82	3.94
Mainframe Software	4.75	9.68
Trans Equip – Light Trucks	7.06	12.35
Trans Equip – Heavy Trucks	7.94	13.95
Trans Equip – Cars	4.93	7.37
Other Trans Equip	6.96	15.36
Stores Equipment	25.77	15.36
Power Operated Equipment	10.95	21.37
Other Tangible Property	4.79	16.67

44. Through the application of the remaining life method of depreciation, Kentucky-American is depreciating new assets over the average remaining lives of similar assets instead of the anticipated whole life of the new asset. Explain why this action is appropriate.

45. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 5, pages 2 through 34 of 48.

a. Kentucky-American reports that in calendar year 2006 property tax payments of $2,642,495. Provide a schedule that lists each area where Kentucky-American was assessed a property tax, the tax base used to make the assessment, and the amount of taxes paid. Total taxes paid should correspond to $2,642,495.

b. Provide the same information requested in Item 45(a) for property taxes that Kentucky-American actually paid in 2007.

c. Provide the source documents for each item listed in the following tax base calculations:

(1) Tax base at December 31, 2005.

(2) Tax base at December 31, 2006.

(3) Tax base at December 31, 2007.

d. Explain why Kentucky-American used property taxes assessed in 2005 but paid in 2006 as the basis for its forecasted property tax adjustment, rather than the property taxes that were assessed in 2006 but paid in 2007.

46. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 1-1, page 3 of 79. Identify and list the cost of removal (Negative Salvage Value) included in "UPIS" of $352,771,606.

47. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 9. The 10-year average ratio of actual to budgeted capital construction ("slippage factors") is 120.46 percent for the Recurring Capital Expenditure Projects 80 – 97 and 90.61 percent for the Investment Projects. Recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost-of-service study as follows:

a. Using the slippage factor of 120.46, adjust all monthly Recurring Capital Expenditure Projects 80 – 97 expenditures beginning August 2006 through the end of the forecasted period.

b. Using the slippage factor of 90.6, adjust all monthly Investment Project expenditures beginning August 2006 through the end of the forecasted period.

c. Provide all documents, state assumptions, and show all calculations used to determine the effect of the slippage factors to each forecasted element of revenue requirement, rate base, and cost-of-service study.

48. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 9. For the calendar years 1997 through 1999 the amounts for the Investment Projects in this proceeding differ from the amounts that Kentucky-American provided in Case No. 2004-00103.[5] Reconcile each of the items listed in the table below:

	CN 2007-00143	CN 2004-00103
1997 Actual Cost	$ 12,089,915	$ 6,554,322
1998 Actual Cost	$ 13,778,106	$ 7,678,749
1999 Actual Cost	$ 8,443,796	$ 3,348,134
1997 Budget Cost	$ 13,200,039	$ 7,518,600
1998 Budget Cost	$ 17,737,027	$ 11,607,727
1999 Budget Cost	$ 9,534,202	$ 4,775,768

49. Provide for each investment project that Kentucky-American started or completed during the period from 1997 through 2006:

a. The number of Investment Projects that Kentucky-American completed ahead of schedule.

[5] Case No. 2004-00103, Kentucky-American's Response to Commission Staff's First Information Request, Item 10 (Ky.PSC filed May 20, 2004).

b. The number of Investment Projects that that Kentucky-American completed on schedule.

c. The number of Investment Projects that that Kentucky-American completed behind schedule.

50. a. List each construction project that Kentucky-American will commence or complete during the forecast period for which Kentucky-American, as of the date of this Request, has not obtained all necessary governmental permits, licenses, or other approvals.

b. For each project:

(1) List all required governmental permits, licenses, and other approvals.

(2) List all governmental permits, licenses, and other approvals that Kentucky-American has not obtained as of the date of this Request.

(3) State the date on which Kentucky-American applied or expects to apply for each required governmental permit, license, or other approval.

51. Provide a comparison of Kentucky-American's forecasted rate base, capital structure, and income statement from Case No. 2004-00103 with its actual results. Provide a detailed explanation for each variance.

52. Provide a comparison of Kentucky-American's forecasted construction expenditures from Case No. 2004-00103 with its actual results by construction project. Provide a detailed explanation for each variance.

53. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 1-1 thru WP 1-4, pages 44 and 45 of 79 and WP 1-7 thru WP 1-12, pages 60 and 61 of 140.

a. State whether Kentucky-American has included the unamortized acquisition adjustment for Boonesboro twice in the forecasted rate base as "Utility Plant Acquisition Adjustment" and "Deferred Debits."

b. Explain why Kentucky-American used the forecasted end balance for Deferred Debits rather than the 13-month average balance.

54. Refer to Kentucky-American's Application, Exhibit 37, Schedule D-1, "Summary of Adjustments to Operating Income Accounts." In adjustment D-3, Kentucky American is increasing Other Income by $1,858,197 to reflect forecasted "AFUDC" above the line. Provide or reference the workpaper that calculates forecasted AFUDC.

55. Refer to Kentucky-American's Application, Exhibit 37, Schedule B 5.2, page 3 of 6, "Working Capital Lead Lag Study."

a. Provide all documents, show all calculations, and state all assumptions used to derive the "Number of Days Between the Reading Date and the Billing Date" of 4.17.

b. In Case No. 2004-00103, Kentucky-American included "Monthly Arrears Partial/Final Bills" of 7.60 days. Explain why this entry has not been included in the calculations in this proceeding.

56. a. In Case No. 2004-00103, the Commission found that several of Kentucky-American's lead/lag days should be restated.[6] State whether Kentucky-

[6] Order of February 28, 2005 at 13.

American has adjusted its lead/lag study in this proceeding to reflect the restatements the Commission made in that proceeding.

b. If the response to Item 56(a) is no, explain why those adjusted lead/lag days have not been included in the proposed lead/lag study.

c. Calculate a revised working capital allowance forecast using the Commission lead/lag adjustments in Case No. 2004-00103. Provide all workpapers, calculations, and assumptions used in the restatement.

57. Refer to the Application, Exhibit 37, Schedule B 5.2, page 5 of 6, Working Capital Lead/Lag Study. For the following accounts, reconcile the totals on this schedule to accounts listed on the Adjusted Operating Income Summary shown at Exhibit 37, Schedule C-2 and provide the account titles and numbers to which the following accounts are posted in the workpapers:

a. Transportation Expense.

b. Telephone Expense.

c. Postage Expense.

d. Stock E.

e. Maintenance Expense, excluding Amortizations.

f. Other Operating Expenses.

g. Depreciation and Amortization.

58. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 6, page 4 of 28. The November 31, 2008 accumulated depreciation reserve balance listed on this schedule is $90,366,532, but

the amount reported in the Application, Schedule B-1, page 2 of 2, is $90,036,643. Provide a reconciliation of the two depreciation balances.

59. For the forecasted period provide a tax basis depreciation schedule that lists separately the balances for each plant account, tax basis accumulated depreciation, and tax basis depreciable lives.

60. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 6, page 5 of 28. Explain what the column entitled "Accumulated Reserve" represents.

61. a. Other utilities that are subject to Commission jurisdiction calculate income tax expense by subtracting interest synchronization from net operating income and multiplying by the appropriate income tax rate without including deferrals. Explain why Kentucky-American's methodology is more appropriate and should be accepted.

b. Recalculate Kentucky-American's federal and state income taxes using the method described in Item 61(a). Provide all workpapers, show all calculations, and state all assumptions used to recalculate the income taxes.

c. Compare the results of Item 61(b) to Kentucky-American's forecasted income taxes contained on Exhibit 37, Schedule C-2, page 1 of the Application. Explain any differences between the amounts.

62. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 1-7 thru 1-12, pages 45 thru 50 of 140.

a. Identify the state income tax rate used to calculate deferred income tax expense for deferred maintenance.

b. Identify where the deferred taxes for the deferred maintenance is reported in the forecasted rate base on Schedule B-1 page 2 of 2 in Kentucky-American's Application.

63. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 1-7 thru 1-12, pages 60 thru 69 of 140.

a. Identify the state income tax rate used to calculate deferred income tax expense for the deferred debits.

b. Identify where the deferred taxes for the deferred debits is reported in the forecasted rate base on Schedule B-1 page 2 of 2 in the Application.

64. State the amount of cost savings, if any, that Kentucky-American will realized through the adoption of the proposed single tariff pricing. Show all calculations and state all assumptions used to derive the amount of such savings.

65. State whether all of Kentucky-American's transmission and distribution mains are interconnected.

66. Provide Kentucky-American's average daily gallons sold per residential and commercial customer for each of the previous 10 calendar years.

67. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 2, pages 2 and 3 of 89. State the basis for Kentucky-American's monthly projected residential and commercial customer growth.

68. Refer to the Direct Testimony of Linda Bridwell, pages 21-22. State why, considering the changing cost assigned to the 2-inch meter, it is not more reasonable to charge a tap fee for 2-inch meter customers at actual cost as Kentucky-American currently does for larger size meters.

69. At pages 5 and 6 of his direct testimony, Paul R. Herbert states: "The demand for private fire units were [sic] increased by a factor of 1.5 over the public fire units to recognize the greater flow rate required for a fire at a private service than for a public hydrant." He further states: "This adjustment was accepted by the Commission in a previous case." Identify the case and Order in which the Commission approved such adjustment.

70. Refer to Direct Testimony of Paul R. Herbert, page 7.

a. State whether Mr. Herbert reviewed the documents upon which Company Schedules B, D and E are based.

b. If yes, provide the documents upon which these schedules are based or refer to their location within Kentucky-American's Application.

71. At page 8 of his direct testimony, Mr. Herbert refers to "field studies of customer class demands conducted for the Company" and "field observations of the service areas of the Company."

a. Identify the person(s) who conducted these field studies and took these field observations and state their position with Kentucky-American.

b. Describe the nature of and process used for the "field studies of customer class demands."

c. Provide all reports, statements, reviews, and memoranda related to or produced as a result of these field studies and field observations.

72. Refer to Direct Testimony of Paul R. Herbert, page 10. Explain why Mr. Herbert supports the concept of single-tariff pricing and the proposed consolidation of rate divisions.

73. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 12, Cost of Service Study. Provide the location in this study where the Consumption Charge as proposed in Schedule G has been calculated.

74. Refer to Direct Testimony of James H. Vander Weide, page 11. Dr. Vander Weide states that a water company's demand uncertainty is caused by fluctuations in temperature and rainfall, the state of the economy and customer growth.

a. Describe how each of these factors specifically affects Kentucky-American.

b. State whether these factors affect all of Kentucky-American's customer classes.

c. If Kentucky-American's response to Item 74(b) is yes, describe how each factor affects the demand for water for each customer class.

d. Provide all studies, articles, reports, or other documents of which that Dr. Vander Weide or Kentucky-American has knowledge that describes or quantifies the relationship between these factors and the demand for water.

e. State which of these factors, if any, affect the demand for natural gas of the natural gas distribution companies that Dr. Vander Weide used as a proxy group in his study.

f. Refer to the Direct Testimony of Edward Spitznagel, page 3. State, in light of Mr. Spitznagel's refusal to consider temperature fluctuations in his weather normalization in favor of other variables, the weight that the Commission should give to temperature fluctuations when considering demand uncertainty as it relates to business risk.

75. At page 12 of his direct testimony, Dr. Vander Weide states that Kentucky-American plans to construct a raw water intake, water treatment plant and a transmission main pipeline and that these projects will place a strain on Kentucky-American's financial resources. Describe how Kentucky-American plans to finance the construction.

76. At page 13 of his direct testimony, Dr. Vander Weide states that increased compliance costs to follow Environmental Protection Agency water guidelines creates greater risk for Kentucky-American.

a. State whether the risk associated with these compliance costs is the perception or fear that the Commission will not allow Kentucky-American recovery of these costs through its general service rates in a prompt and timely manner.

b. If no, then explain how Kentucky-American faces higher risks.

77. Refer to Direct Testimony of James H. Vander Weide, pages 28-29 and Exhibit_JVW-1, Schedule 2.

a. Provide all reports, studies, analyses, and utility regulatory commission decisions upon which Dr. Vander Weide relies for his position that natural gas distribution companies are comparable in risk to water distribution companies and are appropriate for use as a proxy group for a water company.

b. Provide, for each company in the natural gas proxy group, the Value Line company profile upon which Exhibit_JVW-1, Schedule 2 is based.

c. Explain why each of the criteria or filters that Dr. Vander Weide employed to select the members of the natural gas proxy group is reasonable and appropriate.

d. For each of the companies listed in the natural gas proxy group, list its major sources of revenue.

e. For each company listed in the natural gas proxy group, explain how that company may appropriately be use as a proxy for Kentucky-American, which is primarily a water distribution company.

f. Provide in a Microsoft Excel© spreadsheet format with formulas intact the data upon which Schedule 2 is based.

78. Refer to Direct Testimony of James Vander Weide, Exhibit_JVW-1, Schedule 7-1.

a. Provide all documents that Dr. Vander Weide used or relied upon to calculate an average electric company Beta of 0.86.

b. For each company that Dr. Vander Weide used or relied upon to calculate an average electric company Beta of 0.86, state the name of the company and its individual Betas.

c. Explain the appropriateness and reasonableness of using electric companies in this analysis.

d. Provide the pages from *Stocks Bonds Bills and Inflation 2007 Valuation Yearbook* that Dr. Vander Weide used to obtain the risk premium obtained.

79. Refer to Direct Testimony of James Vander Weide, Exhibit_JVW-1, Schedule 7-2. State whether the Average Beta on line 8 of the top Table should read 0.807 rather than 0.86. If not, explain how the Average Beta was obtained.

80. Refer to Direct Testimony of Linda C. Bridwell, page 15. State whether the proposed 3.0 million gallon water storage tank, when constructed, will eliminate the need for the deviation that Kentucky-American has requested in Case No. 2005-00546.[7]

Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED: June 4, 2007

cc: Parties of Record

[7] Case No. 2005-00546, Application of Kentucky-American Water Company for a Determination By the Public Service Commission of The Adequacy of Its Water Storage Capacity Analysis Dated December 21, 2005 and For A Deviation From 807 KAR 5:066, Section 4(4), Until December 31, 2020, Pursuant To 807 KAR 5:066, Section 18 (filed Dec. 22, 2005).